

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
Bill Leonard, Member
State Board of Equalization*

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QUOTE OF THE WEEK

"I am for doing good to the poor, but I differ in opinion of the means. I think the best way of doing good to the poor, is not making them easy in poverty, but leading or driving them out of it." --- Benjamin Franklin

UNDER THE DOME

*****Memo to Eastin: You Lost*****

Kudos to Assemblyman Michael Duvall (R-Yorba Linda) for holding the Department of Education's feet to the fire. The San Jose Mercury News reports that Duvall has been pressing the department for details how they are paying for the attorneys that have thus far not succeeded in prevailing against a department whistleblower. The department says \$4 million has been set aside just to pay for private attorneys to defend the department and former Superintendent of Public Instruction Delaine Eastin. The story is here:

http://www.mercurynews.com/news/ci_5856349?source=email

What I find incredible is the statements by the department, and in particular, Delaine Eastin, who along with the department was found liable by two juries. The first jury found that Eastin "acted with malice" and held her personally liable for \$1.45 million in damages. That jury awarded the whistleblower \$4.5 million in total. The department appealed the decision at public expense. Last month, a second jury upped the damages to \$7.6 million.

In the Mercury-News article last week Eastin was quoted saying, "It really is taking money away from the children to give to a guy who's really no more entitled to it than a man on the moon." Think about the chutzpah of that statement.

The former superintendent was in charge when more than \$3.3 million in federal money and untold millions in state education money were given to people to buy Mercedes Benzes and other luxuries with no oversight whatsoever. Then, to make it worse, she treated the revealer of this fraud not with respect or appreciation, but in a way that is now going to cost the state another \$7 million in damages, plus perhaps \$4 million in legal fees and she is accusing OTHER people of taking money away from California schools.

The department should drop its appeals, pay the money, and send Eastin the bill.

*****Tax Cuts and then Record Federal Revenues*****

Federal tax receipts came in just shy of \$70 billion more this April than last April. April 24 was the single biggest day of tax collections in U.S. history -- \$48.7 billion.

Fiscal 2007 revenues are up 11.3 percent from a year earlier. The much fretted-about federal deficit has been more than halved in the past year. The Wall Street Journal predicts the deficit could shrink to less than 1 percent of GDP this year and go to surplus in 2009.

Bush's tax cuts of 2001 and 2003 are historically large – similar in scope to Reagan's and JFK's. But so has been the economic response. GDP is 20 percent more now than in 2001, and federal revenues are up 27.8 percent. If spending had not gone up around 45 percent in the same period there would be little debate about the efficacy of these cuts.

Do tax cuts “pay for themselves”? Presented this way, it is a straw man argument. Common sense informs us that lowering taxes encourages the taxed behavior and offsets at least some of the cuts. Whether the cuts entirely pay for themselves depends on where the rates fall on the Laffer Curve. For example, in 2003 the Congressional Budget Office estimated that the 2003 cut in capital gains and dividend income would expand revenue in that category 36 percent by 2006. In fact, those revenues more than doubled by 2006 (from \$50 billion to \$103 billion) and they are up another 30 percent so far this year. This indicates the double taxation of investment income was highly punitive and harmful to the economy. Cutting them did not “cost” us anything – in fact, they stimulated activity that resulted in more revenue. Not all tax cuts do this, but when punitive rates are slashed, what a wonderful thing!

The Wall Street Journal has a good summary of the revenue report:

<http://online.wsj.com/article/SB117867077879196610search.html?KEYWORDS=tax&COLLECTION=wsjie/6month>

The Treasury Report can be found here: <http://fms.treas.gov/mts/mts0407.pdf>

TAX TIPS

*****You Can Question Your Assessment *****

I recently had an experience with property tax assessment that reinforced the importance of asking questions when you think something is amiss with your tax bill. Last year, I added a room on to my house. When my property tax bill arrived, the new assessment seemed excessive – as if the entire house had undergone reassessment. This did not jibe with my memory of how we implemented Proposition 13. So I double-checked and it turns out that the assessment was in error and statute is clear.

Because I wanted to be sure and because I know a lot of people are making home improvements, I asked for a legal opinion from BoE staff. I posed the question: “When a county-assessed property owner makes an improvement to an existing house, is the assessor required to increase the property’s assessed value by the value of the improvement only? The answer came back in the affirmative. This is fair to property owners and was part of the original 1979 implementation of Proposition 13.

ISSUE FOCUS

Evaluating Education

“Spending on education has gone up, but the way tax dollars are spent has not changed much over the years. On some programs...California Department of Education officials still have no idea where the money goes or what it does. Government education programs are poorly evaluated, if they are at all. Even if there is decent evaluation work done, lawmakers largely ignore the research evidence when making funding decisions.” Those few sentences should compel you to want to read the Pacific Research Institute’s fourth annual California Education Report Card by Lance Izumi and Rachel Chaney with Xiaochin Claire Yan.

The Report Card grades the state on 17 categories, giving only one “A” but six “F”s. Let’s start with the good news. The “A” grade came in the category of Standards. Izumi writes, “California has one of the best sets of academic standards in the nation. The problem for the state and its students has been inconsistent implementation of the standards in the classroom.” That takes us to the failing grades. Among the Report Card’s observations:

- The formula used to calculate the improvement targets for each public school produces targets so incrementally small that it would take many schools 20 years or more to hit the state’s performance goals.
- Only about four out of 10 students in grades two through 11 scored at or above the proficient level in English language arts and math in 2006.
- More than half of the incoming California State University freshmen in 2005 required either remedial instruction in English language arts or math. These remedial students have a solid “B” high school GPA and are supposedly in the top one-third of high school graduates.
- State-sponsored research has found that whether using statewide average test scores or more refined school-level analysis, there was no association between the total number of years a student had been in reduced-sized classes and differences in academic achievement.
- The government construction system in California is unbelievably convoluted and results in five- to six-year waits before schools can be built, even if there is funding for construction.

I have a keen interest in education policy and when I was a legislator, I clamored for more research about the school bills we were voting on. I did not want to simply ride the pendulum back and forth from one education fad to another. Yet, that is what the system did then and it is what continues to mire it down today. Legislators must have access to and take the time to study

evidence and research, and the educrats in Sacramento and in school administrative offices around the state must do better than merely oversee a system that gets a report card like the one Pacific Research Institute has issued.

For the full report, go to:

http://www.pacificresearch.org/pub/sab/educat/2007/Report_Card/index.html

MISCELLANY

A Good Read

Historical fiction continues to fascinate me as the author works to put the facts of the situation into what happened in real life. I have known politicians who write for history despite the facts but often get their version accepted because that is the only paper trail that is left. Jeff Shaara in his novel of World War II "The Rising Tide" strikes a great balance using the actual facts of history but putting them in the context of real people doing their job.

The book follows Eisenhower, Rommel, Montgomery, and Patton into North Africa and Sicily in 1943 and 1944. He brings the history alive and confirms my opinion that historical outcomes are not foreordained. Leaders of strong will combined with adequate resources and sometimes just chance make things happen. I learned, for example, how hard French and Italian forces fought against the Americans and British early on in the invasion making it a very tough prospect. I learned that Churchill not only insisted on the invasion through Africa but strongly opposed the idea of invading France from England. And I learned that Rommel's transfer from North Africa to northern France was not because the Germans feared the invasion from England but because they also did not think anybody would try to attempt the cross channel invasion and that Rommel's enemies within the German high command just wanted him out of the way.

It's a great way to learn history.

BOE AND LEGISLATIVE DATES

May 28, 2007 --- Memorial Day observed

May 31, 2007 --- Board of Equalization meets in Sacramento.

June 1, 2007 --- Board of Equalization meets in Sacramento.

June 8, 2007 --- Last day to pass bills out of house of origin (J.R. 61(a)(8)).

June 14, 2007 --- Flag Day.

June 15, 2007 --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

June 19-21, 2007 --- Board of Equalization meets in Culver City.

July 4, 2007 --- Independence Day.

July 13, 2007 --- Last day for policy committees to hear and report bills (J.R. 61(a)(10)).

July 17-18, 2007 --- Board of Equalization meets in Sacramento.

July 20, 2007 --- Summer Recess begins on adjournment, provided Budget Bill has been passed (J.R. 51(a)(3)).

August 14-15, 2007 --- Board of Equalization meets in Sacramento.

August 20, 2007 --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

NOTABLE DATES/ HISTORY

May 14, 1948 --- Israel was declared an independent state open to Jewish immigration after British rule over Palestine ended.

May 14, 1973 --- The National Aeronautics and Space Administration (NASA) launched Skylab, the U.S.'s first space station.

May 15, 1930 --- A United Airlines flight from San Francisco to Cheyenne, Wyoming featured the first stewardesses.

May 16, 1927 --- The U.S. Supreme Court ruled that bootleggers must pay income tax.

May 16, 1929 --- The first Academy Awards were presented in Hollywood.

May 17, 1792 --- The New York Stock Exchange was organized by a group of brokers in New York City and the first transactions were made under a tree on Wall Street.

May 17, 1954 --- In *Brown v. the Board of Education of Topeka*, the U.S. Supreme Court reversed its *Plessy v. Ferguson* (see below) decision and declared that racial segregation in schools was unconstitutional.

May 18, 1896 --- In *Plessy v. Ferguson*, the U.S. Supreme Court ruled that racial segregation was legal as long as "separate but equal" facilities were provided for whites and blacks.

May 18, 1980 --- Mount Saint Helens volcano in Washington State erupted killing 57 people.

May 19, 1967 --- The Soviet Union, Great Britain and the United States ratified a treaty banning nuclear weapons in space.

May 20, 1927 --- Charles Lindbergh took off from New York for Paris in the Spirit of St. Louis to make what would be the first nonstop, solo, transatlantic flight.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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